

## REPORT FOLLOW-UP

**AGENCY: DEPARTMENT OF ENVIRONMENTAL QUALITY –  
DRINKING WATER STATE REVOLVING FUND**

On April 5, 2005, the Legislative Services Office released an audit report for the Department of Environmental Quality – Drinking Water State Revolving Fund for fiscal year 2004. The Department was contacted on June 8, 2005, and this follow-up report addresses how it has responded to the one finding and recommendation contained in that report.

**STATUS OF RECOMMENDATIONS:**

**FINDING #1** – The Department's system used for the Fund's accounting is cumbersome and contributes to accounting errors. The accounting system is more than 15 years old and requires multiple transactions and data entries. It also requires peripheral systems to complete necessary accounting, increasing the opportunity for errors. Only one fiscal employee has the knowledge to operate and access the system, which increases the risk that funds could be misappropriated and that errors may go undetected. The Department only generates financial statements once a year. Generating financial information more often would provide management with a tool to monitor financial activities.

Although the errors were not material, they resulted in incorrect financial statements. Continuing to use the current accounting system may not be the most efficient way to complete necessary accounting.

**We recommended that the Department upgrade and improve its accounting system and procedures. This should include the following:**

1. **Consider purchasing a new integrated accounting system. It is likely that the Department can purchase an inexpensive "off the shelf" software program that would meet its needs.**
2. **Complete timely reconciliations of transactions, complete all accounting in one fund detail, and reduce the number of program codes.**
3. **Ensure that more than one person is trained to complete the Fund's accounting.**
4. **Generate accounting reports in a timely manner and require management review to monitor financial activities.**

**AUDIT FOLLOW-UP** – The Department is in the process of reviewing new accounting software. When the Department obtains new software, more than one person will be trained in its use. The new software will also allow for accounting reports to be more easily generated for management review, and the Department is considering reducing or eliminating some fund details and program codes.

**STATUS – IN PROCESS**